

Q2FY21 result review
and earnings revision

Financials

Target price: Rs2,423

Earnings revision

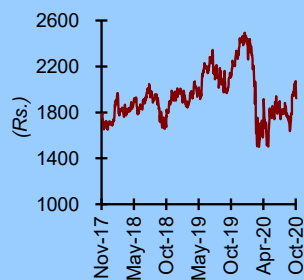
(%)	FY21E	F22E
NII	↑ 5.3	↑ 3.2
PPP	↓ 0.4	↑ 3.1
PAT	↑ 9.3	↑ 0.4

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	0.0	0.0	0.0
Institutional investors	88.7	88.5	88.5
MFs and other	9.5	9.4	9.4
FIs/Banks	0.1	0.1	0.1
Insurance	8.1	8.6	8.8
FII	71.1	70.4	70.2
Others	11.3	11.5	11.5

Source: NSE

Price chart



HDFC Limited

BUY

Maintain

Rs2,041

Consolidating leadership amidst adversity

HDFC Ltd's Q2FY21 earnings were characterised by reversion to pre-Covid levels on growth front (especially in retail home loans – disbursements up 11% in September, 35% in October). The benefit of unwinding excess liquidity (by Rs100bn), reduced borrowing (down 3% QoQ), improved risk profile (RWA down 4% QoQ), and the recent equity raise supported 20bps NIM expansion and NII settling at better-than-expected level. Collection efficiency for retail loans at 96.3% (morat pool collections at <85% - key to watch out for), asset classification benefit being extended to 1.7% of advances, expectation of improved recovery and provisioning buffer of 2.7% (of advances), suggest adequacy of provisioning. Overall, earnings beat expectations on operational front. We maintain our stance on credit cost, liquidity, capital buffer and superior profile to support earnings and help consolidate HDFC's positioning amidst adversity. Maintain BUY with a SoTP-based target price of Rs2,423.

- **BAU to a large extent, will pick up pace soon:** Business is not only reverting to pre-Covid level (retail disbursements 95% of Q2FY20), but entering the growth phase too (September month retail disbursements were up 11% and in October, up 35%). Individual loans (excluding sell-downs) grew 10% YoY/3% QoQ. On non-retail side, HDFC is focused on lending to select 'AAA' rated corporates. In the quarter, higher repayment run-rate (of >Rs50bn) led to run-down in non-retail book – though partially offset by interest capitalisation component. We are building-in loan growth of 9% (11% for retail loans) by FY21-end and 14% (16% retail) for FY22.
- **Collection efficiency at 96.3%; 9 bps rise in non-individual GNPLs:** Overall collection efficiency for individual loans in September was 96.3% - with non-moratorium customers collection efficiency at 99.5%. However, given morat 2.0 pool at 16%, it suggests collections in moratorium pool at <85%. Recovery from this non-collected portion will be key to watch out for. Pro forma GNPLs would have been higher by merely 2 bps at 1.83% of the loan portfolio; with individual NPLs at 0.88% (down from 0.92% in Q1FY21) and non-individuals NPLs at 4.19% (compared to 4.1% in Q1FY20). Asset classification benefits have been extended to loans worth Rs80bn (1.7% of the loan book).
- **Adequate provisioning buffer to cushion earnings volatility:** HDFC has been utilising 30% of any windfall gains in building a contingency buffer. This quarter, too, it created some provisioning of Rs4.4bn (30bps annualised – against our expectations of more than 1%). Outstanding provisions still remain flat QoQ at Rs123bn – 2.6% of gross assets – suggesting similar quantum of write-offs. With this buffer, incremental provisioning requirement will be capped at 1.2%/0.8% over FY21E/FY22E, respectively.
- **NIMs, after dragging due to excess liquidity, improved 20bps QoQ:** Net interest income grew 21% YoY – ahead of expectation as NIMs improved 20bps to 3.3%. Unwinding of high liquidity buffer (down ~Rs100bn to Rs225bn), reduced borrowings (down 3% QoQ), coupled with the recent equity raise supported NIM expansion. The efforts are to minimize negative carry, will support NIMs at 3.1% for FY21E.

Market Cap	Rs3665bn/US\$49.3bn
Reuters/Bloomberg	HDFC.BO/ HDFC IN
Shares Outstanding (mn)	1,795.8
52-week Range (Rs)	2492/1500
Free Float (%)	100.0
FII (%)	70.2
Daily Volume (US\$/'000)	1,39,410
Absolute Return 3m (%)	14.5
Absolute Return 12m (%)	(3.1)
Sensex Return 3m (%)	6.1
Sensex Return 12m (%)	0.2

Year to March	FY19	FY20	FY21E	FY22E
NII (Rs mn)	114,026	127,480	145,816	162,299
Net Income (Rs mn)	96,325	179,951	108,682	124,969
EPS (Rs)	42.5	40.5	43.6	49.4
% Chg YoY	-16.9	85.7	-42.3	15.0
P/E (x)	22.8	24.0	22.3	19.7
P/BV (x)	2.8	2.5	2.2	2.0
Net NPA (%)	0.8	1.3	2.2	1.7
Dividend Yield (%)	1.0	1.1	0.7	1.0
RoA (%)	2.2	3.7	2.0	2.1
RoE (%)	13.5	22.0	11.5	11.8

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- **Absence of dividend income makes earnings look optically lower YoY:** As was disclosed during business update, dividend income was merely Rs3.23 (Rs27bn in Q2FY20), further buoyed by gain in fair value adjustments of Rs1.66bn and net gains on loans assigned of Rs1.6bn (Rs2.6bn). However, this was offset by charge for employee stock options of Rs460mn (merely for a month; next quarter will be more than Rs1bn). Adjusting for all this, earnings would have grown over 25% YoY.

Table 1: Q2FY21 result review (P/L)*(Rs mn, year ending March 31)*

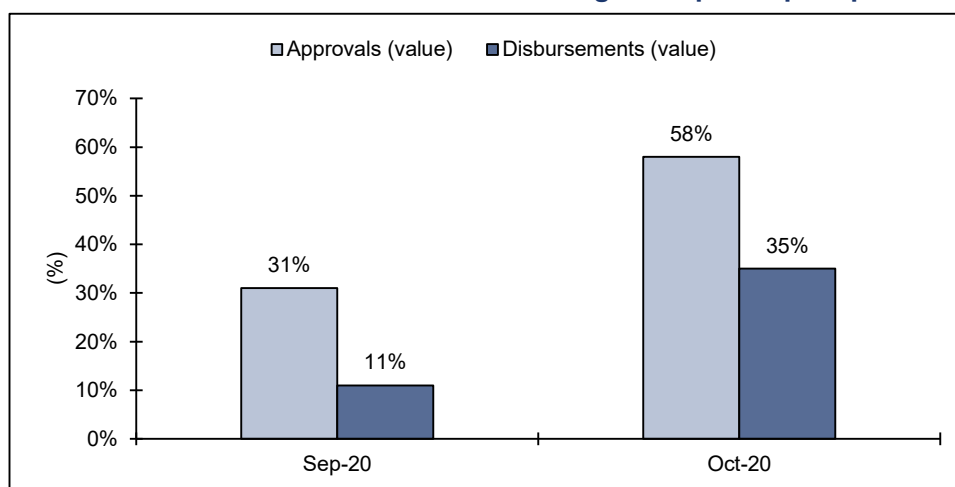
	Q2FY20	Q1FY21	Q2FY21	% YoY	% QoQ
Income statement					
Interest income	1,07,809	1,11,524	1,10,020	2.1	-1.3
Interest expenses	78,307	78,171	73,991	-5.5	-5.3
Net interest income	29,502	33,353	36,028	22.1	8.0
Other income	27,132	18,669	7,308	(73.1)	(60.9)
Net Operating income	56,634	52,022	43,336	(23.5)	(16.7)
Employee cost	1411	1590	1356	(3.9)	(14.7)
Depreciation	333	346	360	7.9	3.8
Other costs	2046	2028	1943	(5.0)	(4.2)
Operating expenses	3,789	3,964	3,658	(3.5)	(7.7)
Pre-provisioning profit (PPoP)	52,845	48,058	39,678	(24.9)	(17.4)
Provisions & Write-offs	7,541	11,990	4,360	(42.2)	(63.6)
Exceptional items	16,271	12,412	-6		
PBT	45,304	36,068	35,318	(22.0)	(2.1)
Tax	5,689	5,553	6,617	16.3	19.2
<i>Tax Rate (%)</i>	12.6	15.4	18.7	617 bps	333 bps
PAT	39,615	30,515	28,701	-27.6	-5.9
	23,344	18,103	28,707	23.0	58.6
EPS (Rs)	22.9	17.6	16.2	-29.3	-7.9
Key ratios					
Loan AUM (Rs mn)	48,27,579	53,15,550	53,32,990	10.5	0.3
-Individuals (Rs mn)	37,22,053	39,41,470	40,40,180	8.5	2.5
-Non-Individuals (Rs mn)	11,05,526	13,74,080	12,92,810	16.9	-5.9
Loan Outstanding (Rs mn)	41,94,249	46,56,850	46,81,500	11.6	0.5
Off-book (%)	13.1	12.4	12.2	-91 bps	-18 bps
Yield on loans (%)	10.4	9.7	9.3	-106 bps	-38 bps
Cost of borrowings (%)	8.2	7.3	6.9	-126 bps	-41 bps
Spread - Calculated (%)	2.2	2.4	2.4	20 bps	3 bps
NIM - reported (%)	3.2	3.1	3.3	9 bps	20 bps
GNPL (% of total loans)	1.33	1.87	1.81	48 bps	-7 bps
Provisions as a % of AUM	0.16	0.23	0.08	-8 bps	-15 bps
Leverage (x)	6.0	6.0	5.4	-61 bps	-55 bps
Capital Adequacy	19.6	17.3	20.7	110 bps	340 bps
Tier I	18.1	16.2	19.5	140 bps	330 bps

Source: Company data, I-Sec research

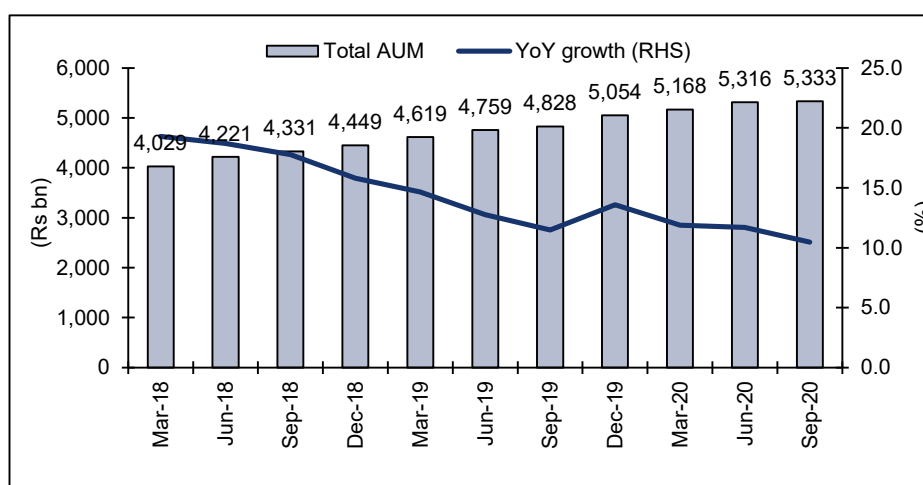
Table 2: Q2FY21 result review (balance sheet)*(Rs mn, year ending March 31)*

	Q2FY20	Q1FY21	Q2FY21	% YoY	% QoQ
Equity capital	3,453	3,470	3,590	4.0	3.5
Reserves	8,13,602	9,11,850	9,97,740	22.6	9.4
Share-holders Funds	8,17,055	9,15,320	10,01,330	22.6	9.4
Total debt	39,08,790	43,20,590	42,08,990	7.7	(2.6)
Current liabilities & Provisions	1,81,766	2,07,917	1,98,178	9.0	(4.7)
Derivative financial instruments	702	3,303	4,623	558.3	40.0
Total sources of funds	49,08,314	54,47,130	54,13,121	10.3	(0.6)
Loans & advances	41,94,560	45,34,290	47,38,934	13.0	4.5
Investments	5,80,236	7,46,900	6,11,780	5.4	(18.1)
Other current assets	70,656	47,881	-3,114	(104.4)	(106.5)
Cash and bank balances	14,814	34,599	3,833	(74.1)	(88.9)
Fixed assets	8,549	9,960	9,604	12.3	(3.6)
Deferred tax assets	8,572	15,836	17,494	104.1	10.5
Derivative financial instruments	30,927	57,664	34,590	11.8	(40.0)
Total uses of funds	49,08,314	54,47,130	54,13,121	10.3	(0.6)

Source: Company data, I-Sec research

Chart 1: Retail disbursements have entered growth phase post pandemic

Source: Company data, I-Sec research

Chart 2: AUM growth derailed due to Covid disruption; business revival better than anticipated

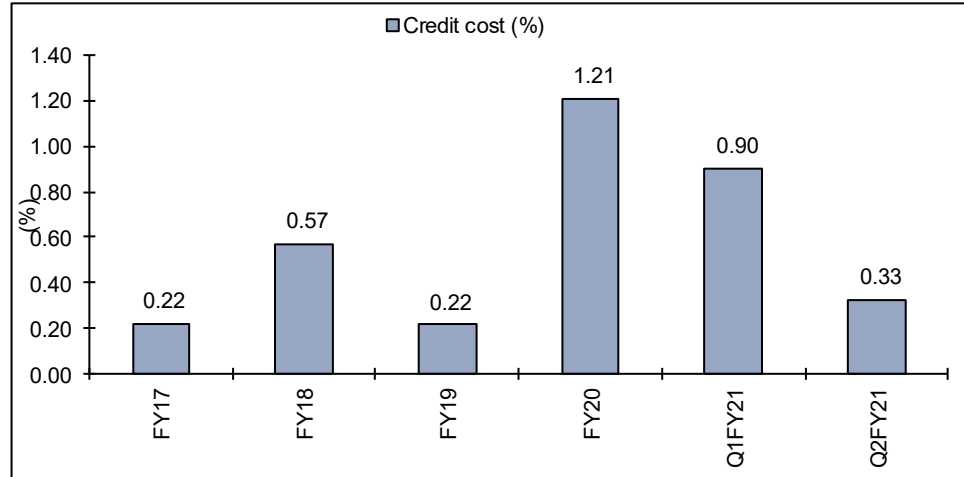
Source: Company data, I-Sec research

Table 3: Collection efficiency strong for individual loans in Sep'20

(%)	Sep-20
Individual loans	96.3
Non-morant customers	99.5

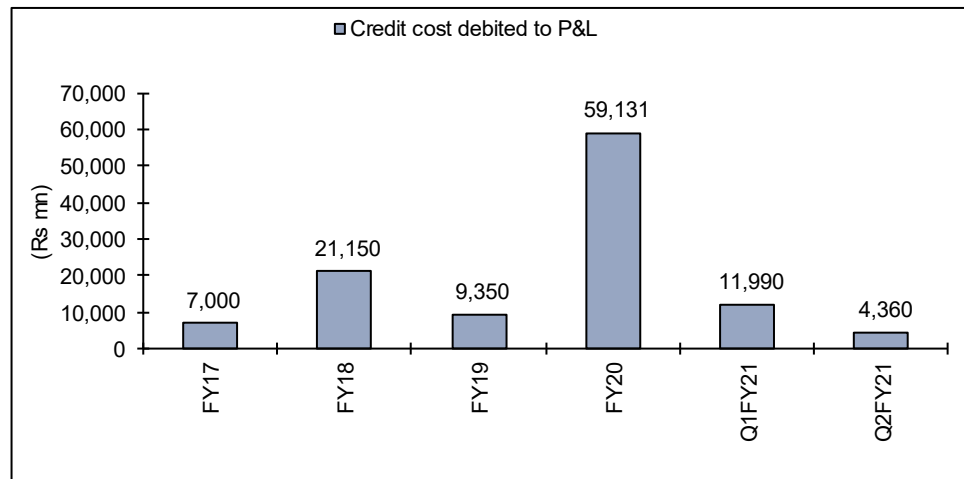
Source: Company data, I-Sec research

Chart 3: Credit cost managed at lower than expected level



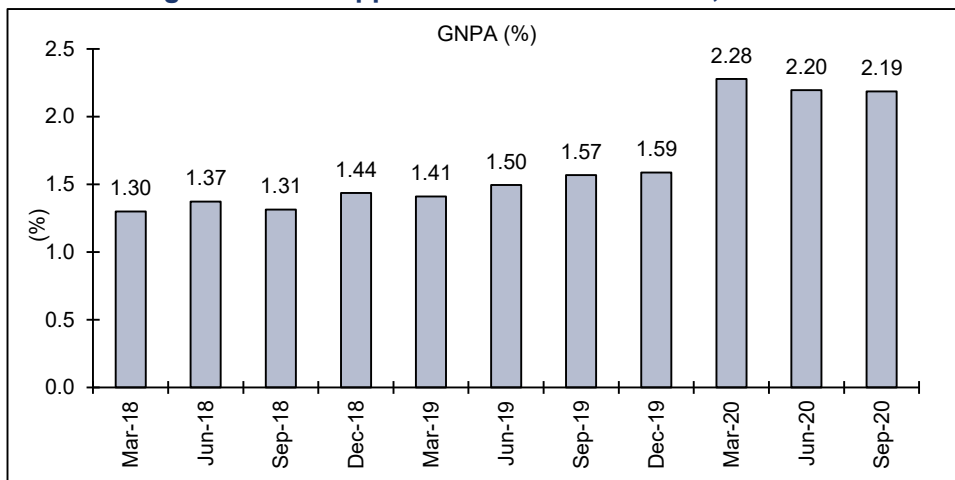
Source: Company data, I-Sec research

Chart 4: Buffer build-up in earlier two quarter; credit cost low in Q2FY21



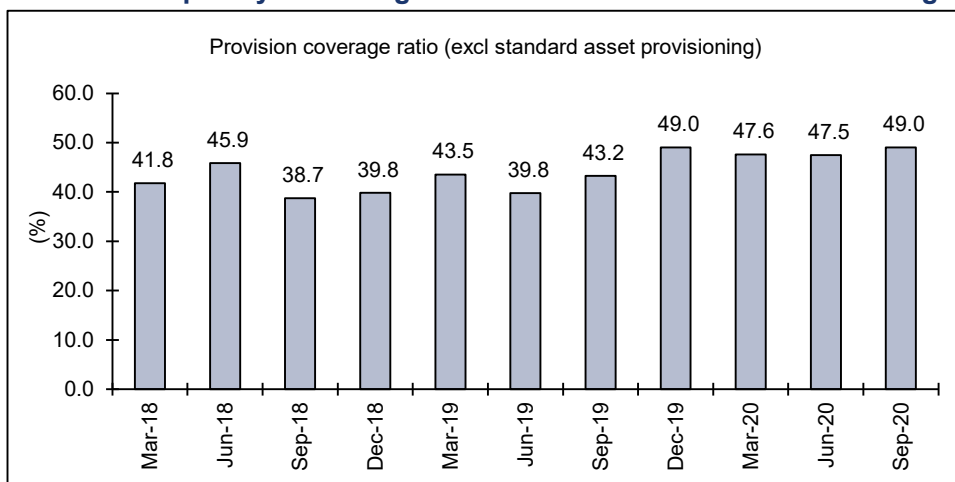
Source: Company data, I-Sec research

Chart 5: Stage-3 assets capped due to NPA standstill; will rise in H2FY21



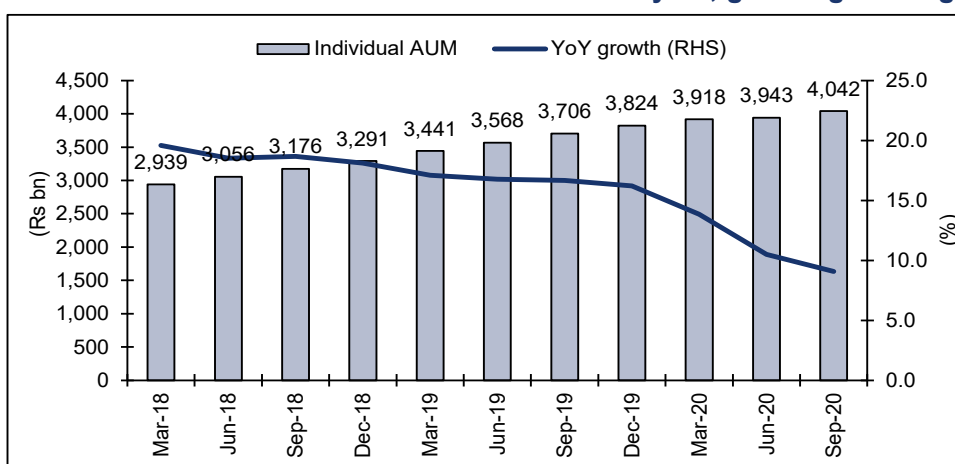
Source: Company data, I-Sec research
 Note: Mar-18 onwards, numbers are under IND-AS

Chart 6: Adequately covered given the collateralised nature of lending



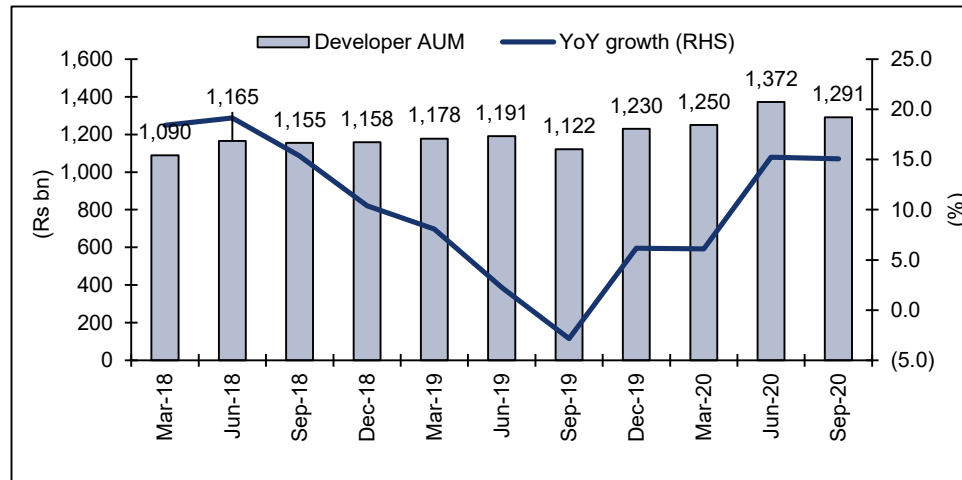
Source: Company data, I-Sec research

Chart 7: Individual disbursements at 95% of last year; growth gathering pace



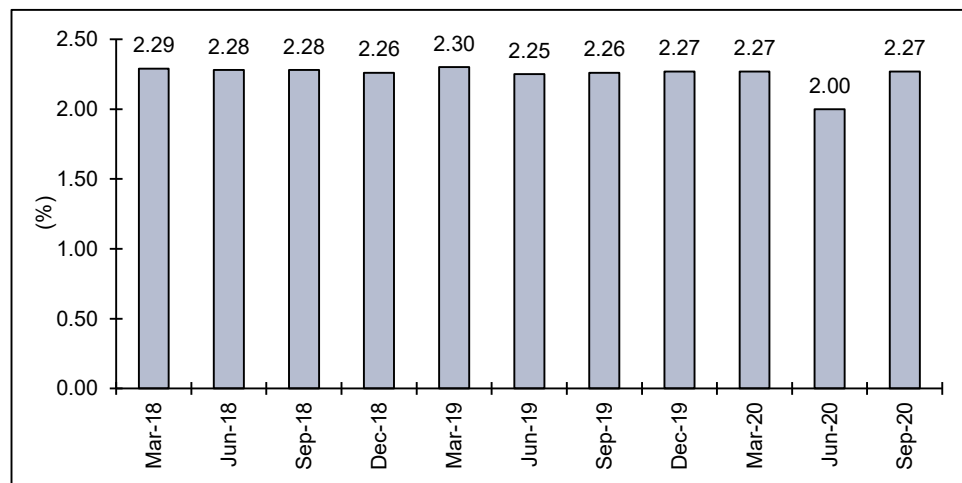
Source: Company data, I-Sec research

Chart 8: Prepayment in corporate book leads to QoQ decline



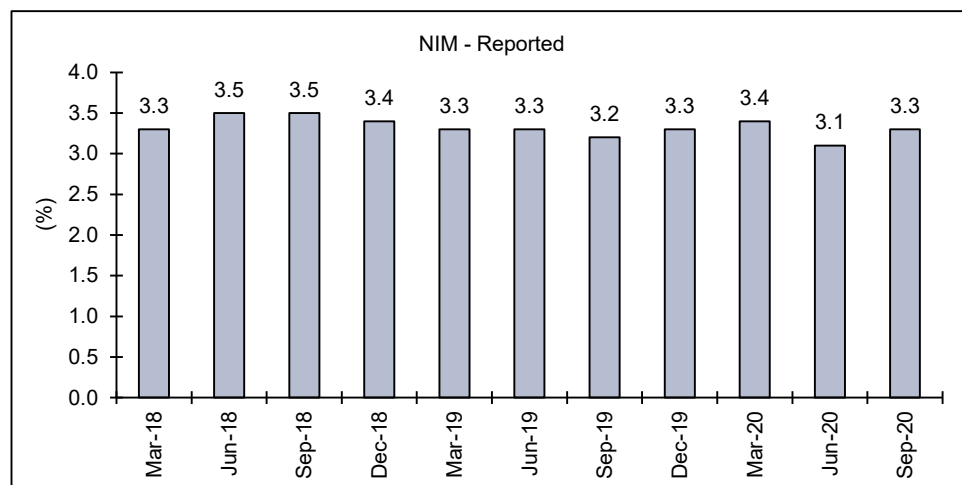
Source: Company data, I-Sec research

Chart 9: Spreads recover with unwinding of liquidity buffer



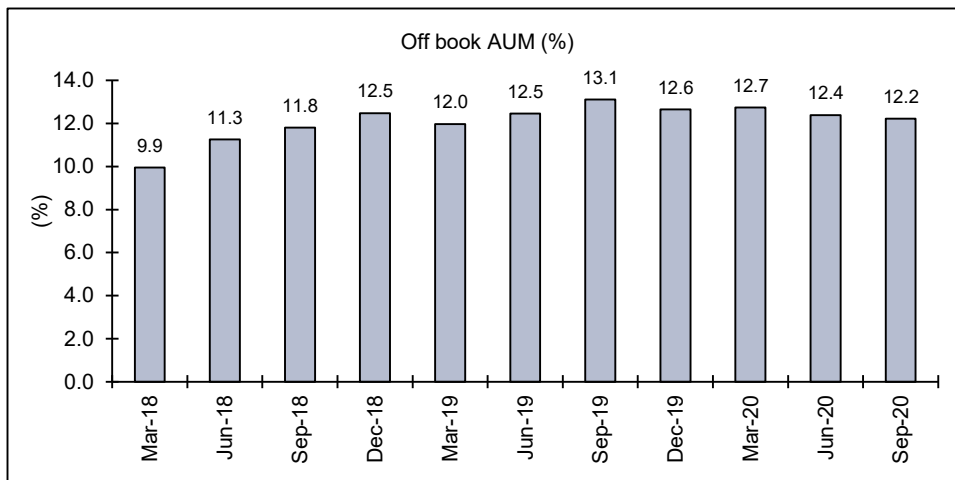
Source: Company data, I-Sec research

Chart 10: NIMs too normalise with lower borrowing cost



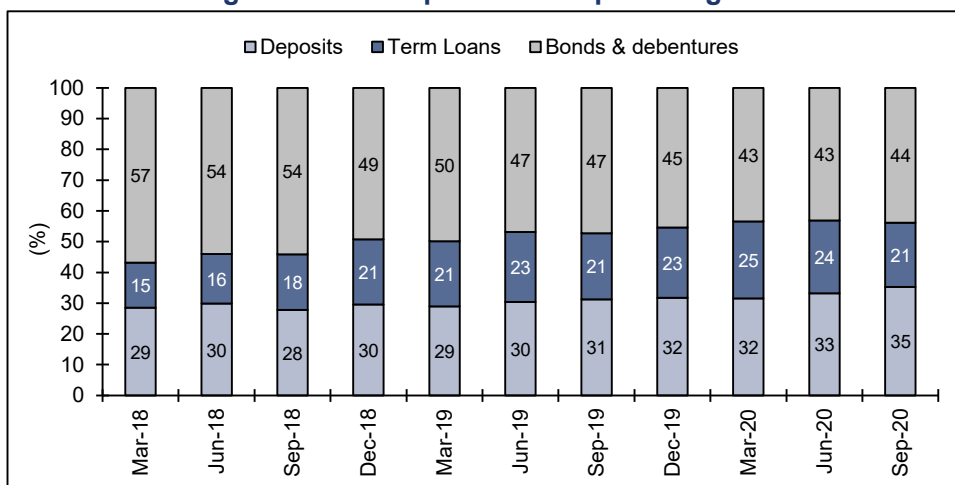
Source: Company data, I-Sec research

Chart 11: Regular sell-downs to HDFC Bank continues



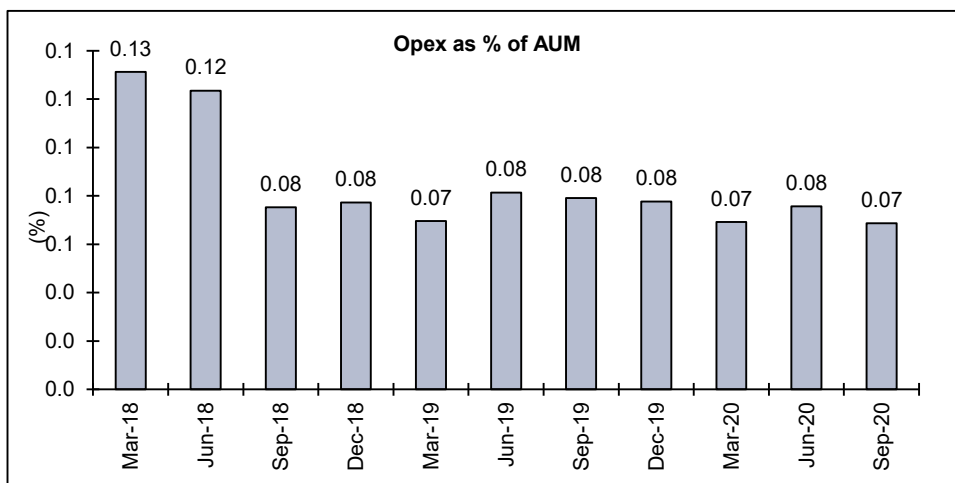
Source: Company data, I-Sec research

Chart 12: Gaining traction in deposits to keep funding cost under control



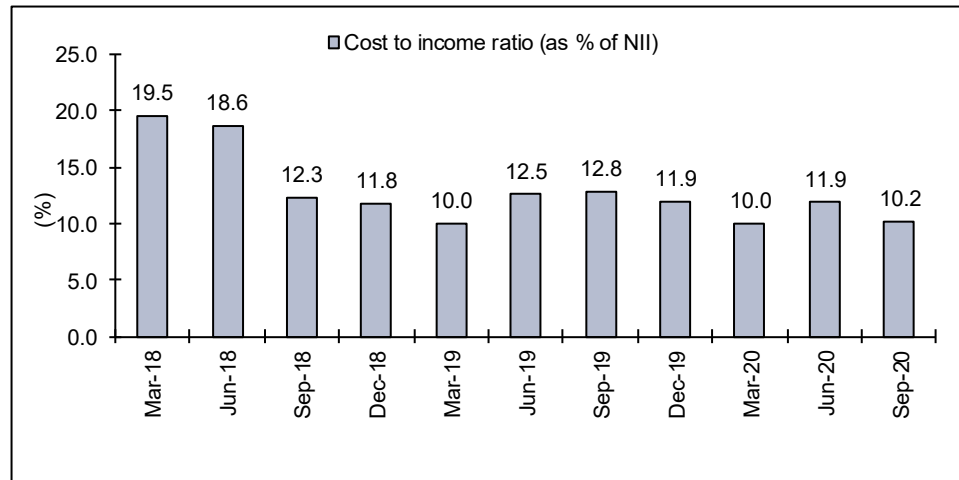
Source: Company data, I-Sec research

Chart 13: Opex declines QoQ and YoY despite resumption in activity levels



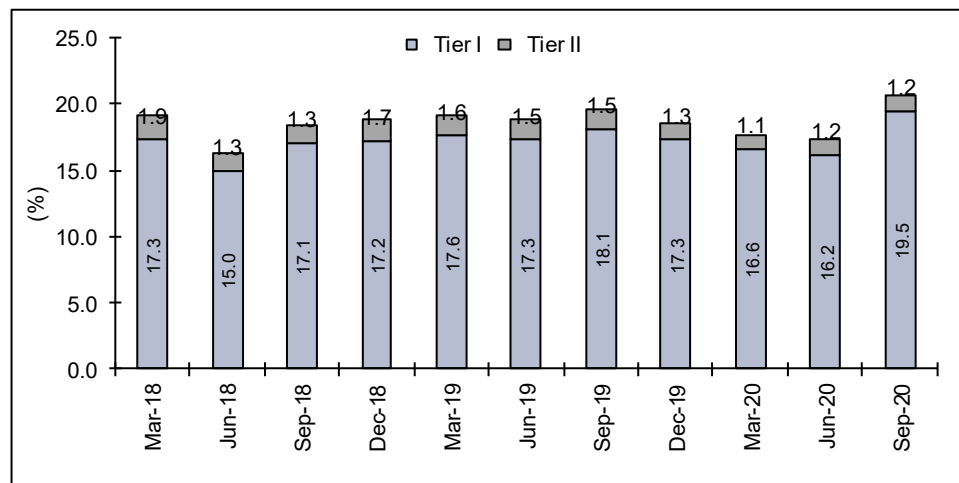
Source: Company data, I-Sec research

Chart 14: Cost-to-income ratio contained around 10-12%



Source: Company data, I-Sec research

Chart 15: Capital adequacy buoyed by recent equity raise



Source: Company data, I-Sec research

Table 4: SoTP-based target price

Subsidiary/Associate/JV	% stake	Basis	Multiple/TP /CMP	Total valuation (Rs mn)	Per share value (Rs)	Year
HDFC Bank	19.4%	Target Price	1493.0	11,86,082	655	
HDFC Standard Life	50.1%	Target Price	587.5	4,45,723	246	
HDFC ERGO General Insurance	50.8%	Book Value	3.0	29,757	16	FY22
HDFC AMC	52.7%	Market value	2651.0	2,22,798	123	FY22
HDFC Venture Capital	80.5%	AUM	10.0%	884	0	FY22
Bandhan Bank	9.9%	Target Price basis	455	54,392	30	FY22
Value of subs (post holdco discount)					1070	
Core Mortgage Business		Book Value	2.8	24,54,616	1353	FY22
Total SOTP Valuation (Rs)				43,94,251	2,423	

Source: Company data, I-Sec research

Financial summary

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E
Interest earned	3,31,188	3,92,402	4,37,493	4,53,102	5,08,763
Interest expended	2,34,980	2,78,377	3,10,014	3,07,286	3,46,464
Net interest income	96,208	1,14,026	1,27,480	1,45,816	1,62,299
Other income	75,887	41,378	1,50,140	47,890	58,020
Operating expenses	4,831	5,457	5,455	7,004	7,629
Employee costs	4,255	5,054	5,793	8,851	6,779
Depreciation	492	665	1,477	1,469	1,717
Pre-provisioning op profit	1,53,046	1,40,538	2,64,894	1,76,383	2,04,195
Provisions & contingencies	21,150	9,350	59,131	43,164	47,984
Profit before tax	1,31,896	1,31,188	2,05,763	1,33,218	1,56,211
Income taxes	22,303	34,863	25,813	24,536	31,242
Net profit	1,09,593	96,325	1,79,951	1,08,682	1,24,969

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E
Share Capital	3,352	3,443	3,464	3,624	3,624
ESOPs					
Reserves and surplus	6,49,297	7,70,112	8,58,117	10,17,625	10,99,055
Minority Interest					
Borrowings	31,97,160	36,52,660	41,91,020	44,90,827	50,64,667
Current liabilities & provisions	1,39,287	1,61,561	1,88,335	2,18,491	2,63,119
Total liabilities & stockholders' equity	39,89,096	45,87,776	52,40,936	57,30,567	64,30,465
Loans & advances	35,73,800	40,07,600	43,99,430	50,57,904	57,15,765
Fixed assets	6,445	6,442	9,861	9,700	11,790
Investments	3,11,119	4,65,617	6,49,444	6,36,496	6,88,964
Cash and Balance	14,851	15,963	34,257	3,569	3,977
Current assets	70,087	83,845	1,32,265	7,569	104
Deferred tax assets	12,795	8,309	15,679	15,330	9,865
Total assets	39,89,096	45,87,776	52,40,936	57,30,567	64,30,465

Source: Company data, I-Sec research

Table 7: Key ratios*(Year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Growth:					
AUM	19.3	14.7	11.9	11.2	13.8
Net Interest Income	-3.4	18.5	11.8	14.4	11.3
Total Non-Interest Expenses	127.6	-22.0	-14.4	36.1	-6.9
Pre provisioning operating profits	33.9	-8.2	88.5	-33.4	15.8
PAT	47.3	-12.1	86.8	-39.6	15.0
EPS	43.7	-16.9	85.7	-42.3	15.0
Yields, interest costs and spreads (%)					
NIM on AUM	2.95	3.01	3.03	3.08	3.01
Yield on loan assets	9.70	9.85	9.91	9.19	9.09
Average cost of funds	7.84	8.13	7.90	7.08	7.26
Interest Spread on loan assets	1.86	1.72	2.00	2.11	1.83
Operating efficiencies					
Non interest income as % of total income	18.6	9.5	25.5	9.6	10.2
Cost to income ratio (%)	19.8	13.0	10.0	11.9	9.9
Op.costs/avg AUM (%)	0.5	0.3	0.3	0.3	0.3
No of employees (estimate)	2,575	2,745	2,915	3,085	3,255
No of branches	326	341	356	371	386
Annual inflation in average salary(%)	-2.0	11.4	7.9	44.4	-27.4
Salaries as % of non-int.costs (%)	22.3	34.0	45.5	51.1	42.0
Nil /employee (Rsmn)	3,736	4,154	4,373	4,727	4,986
AUM/employee(Rsmn)	1,565	1,683	1,773	1,863	2,010
AUM/ branch (Rs mn)	12,358	13,546	14,516	15,495	16,946
Capital Structure					
Debt-Equity ratio	4.9	4.7	4.9	4.4	4.6
Leverage (x)	6.1	5.9	6.1	5.6	5.8
CAR (%) -standalone	19.2	19.2	17.7	20.4	19.9
Tier 1 CAR (%) -standalone	17.3	17.6	16.6	19.2	18.7
Tier 2 CAR (%) - standalone	1.9	1.6	1.1	1.2	1.2
Asset quality and provisioning					
GNPA (%)	1.3	1.4	2.3	4.0	3.0
NNPA (%)	0.8	0.8	1.3	2.2	1.7
GNPA	47,170	57,430	1,00,307	2,02,316	1,71,473
NNPA	27,470	32,440	55,169	1,11,274	94,310
Coverage ratio (%)	41.8	43.5	45.0	45.0	45.0
Return ratios & capital management					
RoAA (%)	3.0	2.2	3.7	2.0	2.1
RoAE (%)	20.9	13.5	22.0	11.5	11.8
Payout ratio (%)	20.8	33.3	12.5	22.4	29.0
Valuation Ratios					
EPS (Rs)	98.9	42.5	40.5	43.6	49.4
EPS (core business) (Rs)	30.3	48.0	50.4	46.9	41.3
Price to Earnings (adj)	20.6	22.8	24.0	22.3	19.7
BVPS (Rs)	389.4	449.4	497.4	563.6	608.6
BVPS (core business) (Rs)	303.7	351.4	387.1	444.3	475.5
Price to Book (adj)	3.2	2.8	2.5	2.2	2.0
Dividend yield (%)	1.0	1.0	1.1	0.7	1.0

Source: Company data, I-Sec research

Table 8: Du-pont analysis*(Rs mn, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Interest earned	10.1	10.4	10.4	9.6	9.4
Interest expended	7.2	7.3	7.4	6.5	6.4
Gross Interest Spread	2.9	3.0	3.0	3.1	3.0
Provisioning for NPAs	0.6	0.2	1.4	0.9	0.9
Net Interest Spread	2.3	2.8	1.6	2.2	2.1
Operating cost	0.6	0.4	0.3	0.4	0.3
Lending spread	1.7	2.4	1.3	1.8	1.8
Non-interest income	2.3	1.1	3.6	1.0	1.1
Operating spread	4.0	3.5	4.9	2.8	2.9
Tax	0.7	0.9	0.6	0.5	0.6
Return on average loan assets	3.4	2.5	4.3	2.3	2.3
Effective leverage (average loan assets/ average equity)(x)	6.2	5.3	5.1	5.0	5.1
RoAE	20.9	13.5	22.0	11.5	11.8

Source: Company data, I-Sec research

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